federal register

MONDAY, JANUARY 9, 1978
PART IV

DEPARTMENT OF THE TREASURY

Office of the Secretary

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"TRIGGER PRICES" FOR IMPORTED STEEL MILL PRODUCTS

[4810-22]

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On December 28, 1977, the Treasury Department announced proposed rulemaking procedures with respect to regulations applicable to the information required to be filed at the time of importation of certain articles of steel (42 FR 65214). As was there indicated, the Secretary intends to implement a "trigger price mechanism" as recommended to, and approved by, the President. For that purpose, "trigger prices" for steel mill products are to be published as the basis upon which imported steel products will be monitored for the purpose of determining whether investigations under the Antidumping Act of 1921, as amended, 19 U.S.C. § 160 et seq., would be appropriate.

I am hereby announcing the base prices to be used in the trigger price mechanism (TPM) for certain imported steel mill products. These prices are based upon evidence made available to the Treasury Department by the Japanese Ministry of International Trade and Industry (MITI) concerning the current cost of producing steel in Japan, recognized as the most efficient exporting country today, as well as other information available to the Department. The data supplied by MITI were compiled by the six major, integrated steel companies in Japan, as well as by a number of smaller, electric-furnace steel makers.

The methodology employed in arriving at a cost of production estimate is similar to that utilized in the Council on Wage and Price Stability (CWPS) Report to the President on Prices and Costs in the United States Steel Industry, released in October 1977, but the product coverage is different.

The individual components of the cost of producing raw steel are totaled and then divided by the appropriate yield factor to obtain the cost of finished steel products. To that figure, appropriate coefficients, expressing the average experience of the Japanese firms in producing individual types of steel mill products, are used to derive the costs of those products. The conclusions published in the CWPS Report concerning costs of producing steel in Japan were based on average data for the Japanese steel industry as a whole, as reflected in published sources. The figures for the estimated costs of production being published today are for items produced principally by the large, integrated companies and, therefore, are based on information from these firms. As a result, they differ from the estimates published in the CWPS Report. The data being submitted by the smaller, nonintegrated companies through MITI will be utilized to construct the costs of production for such items as alloy products, wire, and small structural shapes. These cost estimates will be published shortly.

The total Japanese costs of production for the major firms are found to be:

TABLE 1.—*Estimated Japanese cost of production*

(Per net ton of finished product)

Raw materials	$165.19
Labor	68.56
Other expenses	19.39
Depreciation	16.79
Interest plus profit	33.83
Less scrap credit	−5.96
Total	297.80

1. *The construction of "trigger prices" for "steel mill products."* "Steel mill products" include a wide variety of commodities, produced in a multitude of grades and sizes. For each major steel mill product (excluding stainless steel) imported into the U.S. in significant quantities, a set of "base prices" is being or will be announced, based upon the estimated Japanese costs of production of all steel products. Most of these base prices are being announced with this notice; others—including alloy products, wire, tubular and the remaining bar products—will be announced shortly, as soon as the necessary information is obtained and analyzed. Some products which are not imported in significant quantities, or for which cost data are difficult to obtain, may not be assigned a base trigger price. The Treasury Department will continually review the coverage of the trigger price mechanism at a later date to determine the appropriateness of the coverage of product categories.

Most imported steel mill products are sold to specifications for width, thickness, chemistry, or surface preparation that differ from the base product. To establish "trigger prices" for most of these combinations, "extra" charges must be added to the base price. A complete set of charges for extras is being supplied by MITI as a reflection of the Japanese differentials between the various combinations. In many cases, these "extras" charges are similar to those charged for extras by the U.S. industry; in others they diverge. The Treasury Department will publish the extras charges it will use for the trigger price mechanism as soon as possible.

2. *Cost of production for basic carbon steel products.* The estimated cost of production for the base products comprising the most significant imports, as produced by the six integrated Japanese firms, are listed in table 2. The Treasury estimates are based on an addition of raw material inputs, labor expenses, overhead, and a profit margin, as well as all other capital charges for all steel, multiplied by an appropriate coefficient based on the experience of the reporting firms.

3. *Importation charges.* To the estimated cost of production for each steel mill product consisting of its base price and "extras," there must be added importation costs (excluding duty) from Japan. The resulting total constitutes the Treasury trigger price. The importation costs include Japanese inland freight, loading, ocean freight, insurance, interest, and wharfage charges. These have been calculated for each broad product category on the basis of existing data on average freight rates and wharfage charges for each of four regions of the country—East, West, Gulf, and Great Lakes. Insurance and interest costs have been estimated, based on reported transactions. The resulting importation costs for each major product category appear in table 3. Importers' sales commissions are excluded, since the "trigger price" is based upon the cost to the importer, assuming the importer is dealing on an arms' length basis. To the extent the importer is related to the producer exporting the steel mill product and the transfer price does not reflect an arms' length transaction, the first resale price by the related importer to an unrelated U.S. buyer will be used as the comparison with the trigger price.

TABLE 2

ESTIMATED COST OF PRODUCTION INCLUDING ALL CAPITAL CHARGES -- BASE ITEMS
(F.O.B., JAPAN)

Category Number	Products	Specification	Dimension	Cost of Production ($/Net Ton)
II	Wire Rods			
	Commercial Quality	AISI 1008	5.5m/m	240
	Welding Quality	JIS G3503 SRWYLL equivalent	5.5m/m	241
	High Carbon	AISI 1065 (specific)	5.5m/m	280
	Cold Heading Quality	AISI 1038 (specific)	12.7m/m	289
III	Wide Flange Beams	ASTM A36	12" x 12"	235
IV	Sheet Piling	ASTM A-372	ARCH WEB PDA-27	265
V	Steel Plates	ASTM A36	1/2" x 80" x 240"	241
X	Hot-rolled Carbon Bars	AISI 1045 40 mm round x 4 meters		308
XXII	Black Plate	ASTM A-625-76	0.0083" x 34" x Coil	338
XXIII	Electrolytic Tin Plate	SR-25/25	75L x 34" x C	433
XXV and XXIX	Hot-Rolled Steel Sheets in Coil	ASTM A569	0.121" x 48" x C	210
XXVI and XXX	Cold-Rolled Steel Sheets in Coil	ASTM A366	1.0m/m x 48" x C	269
XXVI	Electrical Steel Sheets			
	Grain-Oriented	M-4	0.012" x 33" x C	907
	Non-Oriented	M-45	0.018" x 36" x C	488
XXVII	Electro-Galvanized Iron Sheets in Coil	EGC-10g/M^2	1.0m/m x 48" x C	311
XXVII	Galvanized Iron Sheets in Coil	ASTM A525G90	0.8m/m x 48" x C	313
XXXII	Tin Free Steel Sheets in Coil	SR	75L x 34" x C	375

TABLE 3

IMPORTATION CHARGES ON
JAPANESE STEEL PRODUCTS
($/net ton)

	PRODUCT	FREIGHT	INSURANCE	INTEREST	HANDLING	TOTAL
II	Wire Rods					
	Commercial Quality					
	East	28.13	2.69	6.73	3.63	41.18
	Lakes	40.83	2.82	8.66	3.63	55.94
	Gulf	23.59	2.65	6.62	4.54	37.40
	Pacific	22.69	2.64	5.10	2.72	33.15
	High Carbon					
	East	28.13	3.13	7.87	3.63	42.76
	Lakes	40.83	3.25	10.06	3.63	57.77
	Gulf	23.59	3.08	7.76	4.54	38.97
	Pacific	22.69	3.07	5.98	2.72	34.46
III	Wide Flange Beams					
	East	30.85	2.66	6.57	3.63	43.71
	Lakes	42.65	2.78	8.44	3.63	57.50
	Gulf	27.22	2.62	6.48	4.54	40.86
	Pacific	24.50	2.60	4.97	2.72	34.79
IV	Sheet Piling					
	East	30.85	2.96	7.31	3.63	44.75
	Lakes	42.65	3.08	9.35	3.63	58.71
	Gulf	27.22	2.92	6.56	4.54	41.24
	Pacific	24.50	2.90	5.53	2.72	35.65
V	Plates					
	East	28.13	2.69	7.04	3.63	41.49
	Lakes	36.30	2.77	8.91	3.63	51.61
	Gulf	22.69	2.64	6.91	4.54	36.78
	Pacific	22.69	2.64	5.35	2.72	33.40
X	Hot Rolled Carbon Bars					
	East	28.13	3.36	8.77	3.63	43.89
	Lakes	40.83	3.49	11.18	3.63	59.13
	Gulf	23.59	3.32	8.66	4.54	40.11
	Pacific	22.69	3.31	6.68	2.72	35.40
XXII	Black Plate					
	East	24.50	3.62	9.55	3.63	41.30
	Lakes	31.76	3.70	11.97	3.63	51.06
	Gulf	20.87	3.59	9.46	4.54	38.46
	Pacific	20.87	3.59	7.32	2.72	34.50

TABLE 3
(continued)

	PRODUCT	FREIGHT	INSURANCE	INTEREST	HANDLING	TOTAL
XXIII	Electrolytic Tin Plate					
	East	30.85	4.64	11.77	3.63	50.89
	Lakes	33.58	4.67	14.57	3.63	56.45
	Gulf	24.50	4.58	11.62	4.54	45.24
	Pacific	23.59	4.57	8.97	2.72	39.85
XXXII	Tin Free Steel					
	East	30.85	4.06	10.83	3.63	49.37
	Lakes	33.58	4.09	13.40	3.63	54.70
	Gulf	24.50	4.00	10.67	4.54	43.71
	Pacific	23.59	3.99	8.24	2.72	38.54
XXV						
XXIX	Hot Rolled Sheets					
	East	24.50	2.34	6.14	3.63	36.61
	Lakes	31.76	2.42	7.77	3.63	45.58
	Gulf	20.87	2.31	6.05	4.54	33.77
	Pacific	20.87	2.31	4.68	2.72	30.58
XXVI						
XXX	Cold Rolled Sheets					
	East	24.50	2.94	7.73	3.63	38.80
	Lakes	31.76	3.01	9.73	3.63	48.13
	Gulf	20.87	2.90	7.64	4.54	35.95
	Pacific	20.87	2.90	5.91	2.72	32.40
XXVII	Galvanized Sheets and Electro Galvanized					
	East	24.50	3.36	8.91	3.63	40.40
	Lakes	32.67	3.45	11.21	3.63	50.96
	Gulf	20.87	3.33	8.82	4.54	37.56
	Pacific	21.78	3.34	6.84	2.72	34.68
XXII	Electrical Sheets					
	East	29.95	7.27	19.55	3.63	60.40
	Lakes	33.58	7.31	24.16	3.63	68.68
	Gulf	24.50	7.22	19.41	4.54	55.67
	Pacific	23.59	7.21	15.00	2.72	48.52

4. *Assumptions utilized in estimating Japanese cost of production.*—(a) *Exchange rate.* All calculations have been based upon an exchange rate of 240 yen to the U.S. dollar applied to the most recent data made available on raw material, labor, capital, and other costs incurred by the Japanese steel industry.

(b) *Capacity utilization.* All calculations have been based upon a "standard" utilization ratio of 85 percent of capacity. While the Japanese industry is currently operating at only 70 percent of capacity, it has averaged more than 85 percent utilization through its business cycles since 1956. Therefore, a standard volume, equal to 85 percent of capacity, is considered the appropriate basis for calculating Japanese production costs.

(c) *Labor productivity.* All calculations have been derived from an estimated labor usage of 7 man-hours per metric ton of raw steel produced. At present, the entire Japanese steel industry is utilizing nearly 10 man-hours per metric ton of raw steel, but this includes the labor-intensive specialty steel firms. Moreover, the Japanese industry has reduced its employment levels by less than 1.5 percent since 1973, while it has reduced output by more than 10 percent. During this period, the industry has made continued technological progress. Therefore, it can expand output to 85 percent of capacity with little or no additional employment. At this higher level of utilization, the average man-hours per metric ton of crude steel for the entire industry would be approximately 8.2. Excluding specialty steel production and eliminating labor not applied to steelmaking operations, the average man-hours required at an 85 percent capacity utilization in integrated carbon steel production has been determined to be about 7 man-hours per metric ton.

(d) *Yield.* The Japanese steel industry yield from raw steel to finished products is placed at 80 percent in calculating production cost. In the CWPS Report, the Japanese yield was estimated to be 77.8 percent in 1976 on a U.S. product-mix basis. The evidence obtained from the MITI and other sources indicates that this estimate was too low.

A study to be released next year by the International Iron and Steel Institute, based in Brussels, demonstrates that the Japanese steel industry obtains a yield of more than 93 percent from raw steel to such semifinished products as billets, blooms, and slabs. By contrast, the IISI study shows that the U.S. industry obtains only an 86 percent yield from raw steel to these semifinished products. This difference of more than 7 percent is attributable to more continuous casting in Japan and Japanese experience in both continuous casting and the rolling of ingots.

From the semifinished stage to the final product, the Japanese industry as a whole also enjoys a considerable advantage because of computer control of rolling mills, more precise control over the thickness of the final product, cold scarfing techniques, longer runs, and larger coils. The U.S. industry realizes an 83 percent yield from semifinished to finished products. A conservative estimate of Japanese yields from semifinished products, is 86 percent. Therefore, the Japanese yield to finished products has been calculated as: $0.86 \times 0.93 = 0.80$. This 80 percent yield factor is used in the cost calculation in table 1.

(e) *Capital costs.* Total depreciation charges per net ton of finished products are approximately $17 for the six largest firms. Net interest expenses and a profit margin add another $34 per net finished ton. The total before-tax payments to capital are therefore $50.62 per net ton, or more than 13 percent of total assets related to steel production. This compares most favorably with the better years for the U.S. industry in the past decade. In the boom year of 1974, U.S. producers realized 20 percent on assets before taxes, but this was the only year in the past decade in which these gross returns were greater than 15 percent. In calculating total charges against capital, interest charges were adjusted to avoid double counting for the highly leveraged Japanese steel firms. Total interest payments, depreciation and other fixed charges represent overhead expenses of considerably more than 10 percent of direct costs.

(f) *Scrap netback.* In calculating production costs based upon Japanese raw materials and labor costs, it is necessary to credit the Japanese firms for scrap or secondary product generated. Yield factors reported by the Japanese industry were not used in the calculation of trigger prices in the belief that some of the products considered "finished" would be regarded by U.S. standards as low quality, perhaps not much above scrap. However, this low quality product must receive a cost credit based, at the minimum, on the current market price of high quality scrap. So doing yields a value of $5.96 per net ton of finished steel.

5. *Implementation of the trigger price mechanism.*—(a) *Publication.* The trigger prices hereby established and to be published for additional products in the near future will be applicable to all shipments loaded for export through the second calendar quarter of 1978. Cost of production data will be collected and reviewed on a continuous basis and trigger prices will be revised on a quarterly basis to reflect changes in costs and in exchange rates. It is the present intention of the Treasury Department to announce trigger prices 60 to 90 days before they become applicable. Therefore, trigger prices applicable to shipments loaded during the third calendar quarter in 1978 will be published during April 1978. Revised trigger prices will be established within 5 percent above or below any revised cost of production data where necessary to minimize fluctuations.

(b) *Imports below trigger prices.* Following the date as of which the special steel summary invoice (SSSI) is to be used for steel imports, currently estimated to be February 15, 1978, all imports of steel mill products loaded for export to the United States after the publication of the relevant trigger prices will be examined by the Customs Service. Forms reflecting substantial or repeated imports at prices below applicable trigger prices will be investigated by the Special Customs Steel Task Force. If the accompanying documentation demonstrates to the satisfaction of the Secretary that the prices for any particular shipment were fixed before the publication of the applicable trigger price and could not be varied in accordance with the terms of the parties' contract, no immediate formal investigation will be initiated in the absence of other information indicating that such shipments are at less than fair value, as defined in the Antidumping Act. In all other cases in which a shipment is found to be at prices below applicable trigger prices, the Customs Service may initiate immediate, informal inquiries of the importer to determine whether such sale is less than fair value within the meaning of the Antidumping Act. Unless the Secretary is satisfied within the time to be allotted therefor, that no reasonable possibility of sales at less than fair value may be found, an antidumping proceeding notice will promptly be published with respect to that shipment and other shipments of such or similar merchandise from the same exporter or from the same country of exportation as he deems appropriate.

(c) *Rights of interested parties preserved.* Implementation of the trigger price mechanism is not intended to deny to any party interested in the importation of steel mill products any rights it may have under the Antidumping Act or other applicable law. It is intended and will be used solely to enable the Secretary to determine on an expedited basis whether or not to initiate antidumping proceedings pursuant to section 153.30(a) of the Customs regulations and to reach the stage of making a tentative determination with respect to sales at less than fair value within a period substantially shorter than the six months provided in section 153.32 of the Customs regulations.

6. *Public comment.* Comments from the public should be addressed to:

Peter D. Ehrenhaft, Deputy Assistant Secretary and Special Counsel (Tariff Affairs), Room 3424, Main Treasury, Washington, D.C. 20220.

Dated: December 30, 1977.

ANTHONY M. SOLOMON,
Acting Secretary of the Treasury.

[FR Doc. 78-470 Filed 1-5-78; 11:32 am]

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